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How Parmalat Spent and Spent

Parmalat's Trail Of Money Yields A Spending Theory

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One question has bedeviled investors around the world since Italian dairy giant Parmalat SpA collapsed last year in one of Europe's biggest-ever corporate frauds: Where did all the money go?

In a report compiled for the Italian government, Enrico Bondi, the special administrator appointed by the Italian government to run and restructure the now-insolvent milk company, has come up with a €14.2 billion answer (in U.S. terms, a $17.4 billion answer).

Parmalat used about €5.4 billion to go on a global acquisition spree -- buying up companies in Canada, the U.S., Latin America and Asia -- and to cover up losses around its far-flung empire, according to a copy of the report seen by The Wall Street Journal.

Enrico Bondi

The company also spent about €6.5 billion on interest payments related to its ever-increasing debts, along with paying fees to banks and brokers helping to facilitate a 13-year borrowing spree at the company, the report says.

The report alleges that a further €2.3 billion went to people or entities connected with Parmalat, namely to companies affiliated with or controlled by its founder and former chairman, Calisto Tanzi. Both Mr. Bondi and Italian prosecutors believe, for example, that nearly €500 million was diverted to Parmatour SpA, a travel company run by the industrialist's daughter, Francesca. About €59 million went to Sata SRL, a company in which Mr. Tanzi had a 60% interest, along with a direct payment to him of €13 million, the report says.

But in other areas, Mr. Bondi's accountants have had less success in determining who ultimately benefited from the alleged looting of Parmalat's coffers. Of the €2.3

billion, according to the report, nearly half went to Wishaw Trading SA, a Parmalat subsidiary based in Uruguay. Wishaw then passed much of the money on to companies or accounts whose owners haven't been identified, the report says.

Mr. Bondi's report said that about half of the squandered money came from bond investors who lent Parmalat €7.4 billion between 1990 and 2003. A further €4.1 billion came from Italian and foreign banks, the report said. Altogether, the company raised €13.2 billion from outside sources during this period and then spent an additional €1 billion from its internal cash flow.

This left Parmalat teetering under a €14.2 billion debt mountain when the fraud became apparent late last year after a Parmalat bank account at **Bank of America** Corp. supposedly holding €3.9 billion was found to be fictitious.

In addition, while Parmalat shares had a market value of more than €2 billion before the company's collapse and it operated factories in 30 countries around the world, its actual assets totaled less than €1 billion at the end of 2003, the report said.

Mr. Bondi's report -- the first in-depth statement by Parmalat's special commissioner -- also suggests Italian and foreign banks played a role in enabling top company executives to sustain their alleged fraud. Without naming names, the report charges that financial institutions used tax havens to "issue bonds and lent money through structured finance, which helped Parmalat falsely represent its economic and financial situation in its books."

Foreign banks were the main underwriters of Parmalat debt from 1990 through 2003, with **J.P. Morgan Chase** & Co., New York, leading the pack by arranging some €1.7 billion in debt. Among other Wall Street firms, **Morgan Stanley** arranged €853 million, and **Merrill Lynch** & Co. €841 million, according to the report.

Officials at J.P. Morgan Chase and Morgan Stanley declined to comment. In an e-mailed statement, Merrill Lynch said: "Merrill Lynch has not done financing business with Parmalat for nearly five years and is confident that it acted appropriately during the earlier years in which it did financings with Parmalat." Mr. Tanzi's lawyer couldn't be reached to comment.

While Mr. Bondi stops short of saying the banks knowingly colluded with Parmalat, he says that the company's true financial condition was easily identifiable by comparing its published numbers with independent data available detailing the amount of bonds it had issued. "Parmalat's disarray was knowable to financial operators," the report says.

Italian prosecutors have sought to indict the Bank of America, based in Charlotte, N.C.; the Italian affiliate of auditor Deloitte Touche Tohmatsu; and Italaudit, the former Italian arm of auditor Grant Thornton International, on securities-laws violations. Those indictment requests by prosecutors in Milan, along with similar requests related to 29 people connected to Parmalat, are still pending.

An investigation by prosecutors in Parma, near Parmalat's home in Collecchio, into the actual fraud is continuing.

Parmalat is trying to emerge from bankruptcy protection, and the Italian government has approved a restructuring plan that calls for debt holders to receive stock in a newly constituted company that will in many cases be equal to 11.3% of their original investments. Investors who owned stock in Parmalat will receive nothing.

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